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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000891

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SUBJECT: SENATOR ALLEN'S FEBRUARY 13 MEETING WITH SHIMON PERES

Classified By: Ambassador Daniel C. Kurtzer for Reasons 1.4 (b,d)

1. (C) Summary. Senator Allen and Israeli Deputy Prime Minister (DPM) Shimon Peres discussed their mutual interest in nanotechnology as well as ways to bolster the Palestinian economy. Peres stressed the importance of moving quickly on improving freedom of movement within Palestinian areas and between those areas and Israel. He said a concerted effort had to be made to create job opportunities for Palestinians. He urged the USG to help in many ways, including helping to pay for a new Palestinian social security program. He said he had been "pleasantly surprised" by Abu Mazen. Senator Allen said the USG hoped the Israelis and Palestinians would achieve success in their quest for peace. He noted that the USG would not assist the Palestinians with social security initiatives. End Summary.

2. (C) Participants:

U.S.  
Senator Allen  
Ambassador Kurtzer  
Paul Unger, Legislative Director, Office of Senator Allen  
Capt. Jim Stein, USN, Deputy Director, Navy Senate Liaison Office  
Deputy Economic Counselor Price (Notetaker)

Israel  
Deputy Prime Minister Shimon Peres  
International Policy Advisor Einat Wilf  
MFA Congressional Liaison Eyal Sela

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Nanotechnology  
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3. (C) Senator Allen, who is Founding Chair of the Congressional Nanotechnology Caucus, began the meeting by praising DPM (DPM) Peres' active work on behalf of nanotech. Senator Allen noted that the U.S. Nanotechnology Initiative was the biggest multi-agency scientific program since the Apollo program. He saw nanotechnology as a unique, cost-efficient way to tackle such key problems as cancer, and key to new manufacturing techniques. DPM Peres focused more on the military applications of nanotech, noting it would pave the way for much more deadly weapons for the individual soldier in the battlefield. Both agreed on nanotech's promise in areas relevant to the Middle East such as desalinization.

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Peres: The Two-Sided Peace Negotiations  
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4. (C) Peres underlined his belief that Israel and the Palestinians found themselves at a uniquely hopeful moment in time. Yet, in order to take advantage of this, Israeli leaders found themselves having to negotiate not only with the Palestinians, but also with their fellow Israelis. "Israelis are very skeptical, and this skepticism is hard to overcome." He praised PM Sharon for having helped to change this attitude through determination to make disengagement happen.

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Disengagement Not Enough: Gazans Need Jobs  
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5. (C) Peres noted that it was essential that the political success of disengagement not turn into an economic disappointment. He stressed that jobs were the key to a viable Gaza economy. The Gazans were well-educated, and countries such as Turkey showed that moderate Islam was not only a viable path for Muslims, but a more economically successful one. The agricultural sector was key to Gazan economic viability. The handover and efficient utilization of Israeli settler agricultural facilities by Palestinians could alone generate 10,000 - 20,000 jobs. To make this happen, it was essential to find an intermediary who could receive the assets and then provide them to the Palestinians.

6. (C) Peres urged Allen to get U.S. corporations involved in the Gaza economy, particularly vis-a-vis tourism. Peres had already spoken with four U.S. corporations, including the

owner of Radisson hotels, about developing Gaza tourism. The U.S. could also help Israel by moving forward on developing the Negev and the Galilee. Finally, Peres stressed the importance of freeing Palestinian movement inside Gaza and the West Bank, and between both areas and Arab states. In this regard, it was key that Israel was not just turning over security control of five cities to the Palestinian forces, but also control of the roads going into those cities. Lastly, Peres plumped for the establishment of new Qualified Industrial Zones in Palestinian areas, noting the tremendous success of the Israel-Jordanian QIZ arrangement.

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Peres: Abu Mazen a "Pleasant Surprise,"  
but Needs Social Security Program  
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17. (C) Peres noted that Israel had been "pleasantly surprised by Abu Mazen." He noted the key to helping Abu Mazen was giving Palestinians a stake in his success. One way to do so was to create a social security fund for the Palestinian populace. The cost, \$120 million per year, should be divided between the USG and the EU. The other essential element for long-term

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Senator Allen Responds  
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18. (C) Senator Allen said the USG wanted very much to see Israel and the Palestinians establish a stable peace that guaranteed Israeli security and praised Peres for his hopeful attitude. Although he hoped the current atmosphere would bear fruit, he expressed serious concern about the role of Hamas and its ability to undermine current efforts to establish confidence between Israel and the Palestinians. It was central that this group be brought under control. Tourists would hesitate to visit an area in which such a group could continue terror attacks unabated. Moreover, such groups could easily undermine any moves towards peace. DPM Peres said even Hamas operated under political constraints. Once it saw Abu Mazen gaining popularity among a populace that believed in the possibility of peace, Hamas would begin to change its tune. Moreover, numbers were in the PA's favor -- the PA had 40,000 police, versus just 3,000 Hamas members. Properly led and deployed, the former could easily control Hamas.

19. (C) The Senator also counseled the DPM that the USG would not support a Palestinian social security fund. This was probably an area in which the Europeans would be most usefully engaged. Although U.S. corporations with an international presence would be well-placed to investigate the possibility of investing in Palestinian areas, he noted that attempting to get purely domestic U.S. firms to do so could be viewed negatively in the U.S. as supporting outsourcing. He also noted that many firms potentially interested in investing in the area would be drawn more to Iraq, which possessed greater natural resources.

110. (U) Senator Allen did not have a chance to review this cable.

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KURTZER